

VZCZCXYZ0000
OO RUEHWEB

DE RUEHMS #0039/01 0201332
ZNY CCCCC ZZH
O R 201332Z JAN 10
FM AMEMBASSY MUSCAT
TO RUEHC/SECSTATE WASHDC IMMEDIATE 1154
INFO GULF COOPERATION COUNCIL COLLECTIVE
RUCPDO/DEPT OF COMMERCE WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHINGTON DC

C O N F I D E N T I A L MUSCAT 000039

SIPDIS

E.O. 12958: DECL: 2020/01/20
TAGS: [EFIN](#) [ECON](#) [PGOV](#) [ELAB](#) [MU](#)
SUBJECT: SNAPSHOT OF OMAN'S BANKING CLIMATE AND ECONOMY

REF: MUSCAT 34

CLASSIFIED BY: Richard J Schmierer, Ambassador, State, Exec; REASON:
1.4(D)

¶1. (C) Summary: In an introductory call on the head of HSBC bank for Oman, the Ambassador received a candid view of Oman's banking circumstances. HSBC is well-placed in Oman, being the first bank in the country - and even served as the de facto central bank before the official one was established. HSBC is the principal lender to the government - a service currently unused as Oman has substantial reserves on hand. HSBC judges Oman's financial situation to be good due to sound management, infrastructure, and leadership. On the other hand, Oman faces many of the challenges of its Gulf neighbors: a demographic youth "bulge" and a high level of personal debt. The Central Bank exacerbates the latter by capping the interest rates so low that bad risks and good risks pay virtually the same rates. The imminent start of Oman's first credit rating and reporting system may give banks a better ability to evaluate potential customers. End Summary.

¶2. (C) The Ambassador paid an introductory call on Ewan Stirling, CEO of the Oman office of HSBC bank and a well-positioned and candid interlocutor on Omani financial trends, on January 18. The Ambassador opened the discussion by complimenting HSBC for its sponsorship of socially worthwhile projects and events, most recently an exhibition of four prominent Arab artists at Oman's oldest private art gallery. Stirling replied that HSBC is keen to support such projects; its prime targets in this respect are the environment and education, but also highly values support of the arts.

¶3. (C) Stirling noted that HSBC was the first bank in Oman, in its earlier iteration as the Imperial Bank of Persia. After Sultan Qaboos acceded to the throne in 1970, the bank even served for a period of years as the central bank of Oman. It remains the principal lender to the government, and the government's conduit for international financing. That said, as the government is currently "sitting on a big pot of cash" it is not utilizing this service at the moment. [Note: The Ministry of Finance has been interested in finding the benchmark for Oman's international credit rating by floating an international bond, but has concluded that at present the cost, at two and a half percent, would not be worth the gain. End note].

¶4. (C) HSBC is bullish on Oman, according to Stirling. He noted three important factors in Oman's favor: sound financial management; a government that keeps its word; and the fact that Oman "is a real country," i.e., it is cohesive and has developed the infrastructure and institutions of a modern state. He agreed with the Ambassador that Oman's conservative approach to financial management has paid off by enabling Oman to weather the global

economic crisis in relatively good shape. Stirling noted that Oman's current growth rate is double what had been expected (reftel).

15. (C) Turning to challenges, Stirling noted that the biggest one for Oman (as elsewhere in the region) is demographics. Oman needs to sustain its growth and continue to provide education, followed by employment for its youth. Oman also faces the reality that its oil and gas reserves are limited, so time is of the essence. Stirling said that, in his experience, Omanization works against the work ethic, as employees [Note: particularly in banking, which has a high Omanization quota of 95 percent. End Note.] know they have fairly strong job security, and, if need be, could find equivalent alternative employment with little effort. Another issue affecting Omanization is that Omanis seem to shy away from some professions; Stirling noted, for example, that there is only one Omani actuary, and only ten Omani accountants, available in the entire country.

16. (C) The relatively small scale of Omani personal wealth, and the Omani market, is also an issue. Calling this phenomenon the "scale of wealth," Stirling commented that if his headquarters were to ask him to list his twenty biggest customers, along with their wealth, and his counterpart in Riyadh to do the same, it would take only the top two customers in Riyadh to equal the wealth of the top twenty in Oman.

17. (C) Another problem he sees (one not confined to Oman) is the high level of personal debt. Many Omanis are living beyond their means, a phenomenon which has developed over the past decade or so and which seems to have been fed by aspects of the Omani financial market. One factor that exacerbates reckless borrowing and spending is a Central Bank directive capping the total amount of fees and interest banks can charge to eight percent. This means that all customers, regardless of their creditworthiness, pay about the same interest rate and this, coupled with a Central Bank policy of encouraging banks to make funds readily available to the Omani public (while cautioning banks to, nonetheless, lend prudently), fuels a trend towards indebtedness. This has the effect of extending debt repayment into the future indefinitely. One initiative on the horizon that should help address the somewhat "easy credit" environment will be Oman's first credit rating and reporting system, scheduled to begin operating in March (a target date which, Stirling noted, is likely to slip).
Schmierer